

**Tax Report** | *By Tom Herman*

## Medical-Account Rules May Change

President Bush wants to eliminate the dreaded “use it or lose it” rule in health-care flexible spending accounts, the popular programs allowing workers to pay medical bills out of pretax dollars.

Because of the rule, employees must spend every penny of the money in these accounts or forfeit the balance. The president is proposing legislation that would allow workers to carry over as much as \$500 of unused contributions into the following year. Workers would also have the option of withdrawing the money and paying taxes on it or sticking it in a 401(k) account or similar retirement plan.

Millions of Americans have flexible spending accounts, which are strongly recommended by financial advisers. Workers decide each year how much money to set aside in their accounts. The big gripe is that if they don’t spend that money by the end of their plan’s year, they lose it. As a result, workers often go on a spending binge around the end of each year, shelling out thousands of dollars on eyeglasses, sunglasses, dental work and other items merely

to soak up the unused balance.

While it is still much too soon to predict what will happen to the Bush proposal, it is already drawing support from members of both parties. Backers include Rep. Jim DeMint, a South Carolina Republican, and Rep. Albert Wynn, a Maryland Democrat.

Rep. DeMint introduced his own bill this month along the lines of the Bush proposal, and it already has more than 40 cosponsors. He praises flexible spending accounts as “powerful tools” that would be used by more workers if not for the use-it-or-lose-it rule. “I think the prospects are good” for enactment, Rep. DeMint adds in a telephone interview. “We’re starting off with a lot of bipartisan support, and it’s an inexpensive idea.”

Other influential supporters include the National Association of Manufacturers. E. Neil Trautwein of the association agrees that prospects for legislation are encouraging.

Administration officials haven’t said much about the proposal since it was introduced but are expected to campaign

for it later this year. “Our first priority is the president’s jobs and growth package,” says Tara Bradshaw, a Treasury spokeswoman. “Once that has passed, we will turn to other proposals in the president’s budget.”

How many people don’t spend all the money in their accounts? The Employers Council on Flexible Compensation in Washington estimates about 20% leave something on the table. “Surveys indicate that it is usually under \$100 because most folks spend down their accounts at the end of their plan year,” says Bonnie Whyte of the Employers Council. “We view that as inefficient health-care spending.”

Even so, Ms. Whyte says the accounts are valuable tools for paying medical bills. “An individual’s tax savings usually far exceed any unspent funds,” she says.

Based on consultant surveys, Ms. Whyte says conservative estimates indicate 4.5 million to 6.8 million workers currently are enrolled in health-care flexible spending accounts.